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MODELS OF THE INTERNATIONAL ECONOMIC DEPENDENCE OF PACIFIC MICROSTATES: A CRITICAL REVIEW WITH IMPORTANT IMPLICATIONS FOR INTERNATIONAL POLICIES AND RELATIONS

CLEMENT A. TISDELL
c.tisdell@uq.edu.au
School of Economics,
The University of Queensland, Brisbane

ABSTRACT. Most (but not all) Pacific island communities achieved self-government in the last half of the 20th century. However, they still remain highly dependent economically on larger and wealthier patron-nations. Drawing on the available literature, this paper critically examines competing models of their dependence and its governance implications. In doing so, it gives particular attention to the MIRAB model. The MIRAB model of Pacific island micro-economies was developed in the mid-1980s by the New Zealand academics, Bertram and Watters, and dominated the literature on the economics of small island nations and economies until alternative models were proposed two decades later. Nevertheless, it is still an influential theory. MIRAB is an acronym for migration (MI), remittance (R) and foreign aid (A) and the public bureaucracy (B); the components of the MIRAB model. The nature of this model is explained and the importance of distinguishing between the two processes involved in it (one based on foreign aid and the other on overseas remittance) is emphasized. Evidence is given of the importance of migration and overseas remittance for the functioning of some Pacific island microstates, such as Tonga. Yet, it is argued that no single model adequately typifies the economic situations of Pacific microstates and micro-economies because of their diversity. Even economies that have been classified as MIRAB economies can be very different. The newer TOURAB, SITE and PROFIT models have similar limitations. In order to understand adequately the economic situation of Pacific island microstates (including their economic vulnerability, their sustainability, and political susceptibilities), it is necessary to adopt a more holistic approach which takes account of historical, cultural and environmental factors. This is illustrated by the case of Nauru. It is shown that the international economic dependence of Pacific island microstates and their environmental vulnerabilities have made them susceptible to political influence by patron nations. This has important implications for international affairs. Furthermore, new patron nations, such as China, are emerging, as traditional donors reduce their aid to

Pacific island nations. This concerns their traditional donor countries. Reasons for relevant changes in international relations in the Pacific are suggested, and the impact of political independence on the economic fortunes of microstates is considered. Despite the limitations of existing models of the external economic and political dependence of microstates, it is found that they are useful starting points for selectively assessing external economic relations and changes in these.
JEL codes: P4; O1; O2

Keywords: aid; China; economics of small island nations; migration; MIRAB model; Nauru; Pacific island microstates; sea level rise; remittances

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1. Introduction

Most Pacific island communities obtained self government in the second half of the 20th century. The main exceptions are the French possessions, for example, French Polynesia and New Caledonia. Despite many achieving self government, virtually all Pacific island communities remain highly dependent economically on larger or wealthier patron nations. This is partly a result of their small territorial size; low levels of population; in many cases their limited availability of natural resources, and other economic disadvantages such as small home markets, fragmented territory and remoteness from major metropolitan economic countries (see, for example, Connell, 2010). While self-government provided increased scope for their local determination of national affairs and for them to independently participate in international relations, the scope for doing so has been significantly limited by their need to seek economic support from larger nations in the form of foreign aid and to ensure the continuing possibility of their citizens to migrate to overseas countries. Drawing on the available literature, this article outlines and critically examines various models which highlight the nature of the continuing economic dependence of Pacific island communities on larger economies. The implications are discussed of this continuing economic dependence for their political independence and for international relations.

Most attention is given to the MIRAB model because it is the model most commonly proposed for typifying the economic situation of small island states and was the earliest model developed to typify their situation. The MIRAB model (which outlines the way in which several small island economies in the Pacific manage to remain sustainable, despite their comparative lack of domestic economic production) was developed by two New Zealand academics; Bertram and Watters (1985). It is based on the observation that these economies rely heavily on remittances from their emigrants and funds provided by foreign aid. As pointed out by Bertram (2006), this model has been widely accepted and applied not only in the Pacific but also to some small economies elsewhere. Bertram (2006, p. 12) expresses the view that the MIRAB model is likely to continue to be applicable to many small island nations well into this century. Nevertheless, as is pointed out here, changes in the nature of the operation of the model are to be expected, and it is doubtful if it captures adequately the diverse way in which the economies of small island nations in the Pacific operate and have developed.

In this article, the basic structure of the MIRAB model is outlined and studies are reviewed which provide support for it. The applicability of the model is then discussed and changes in the nature of its operation and future applicability are considered. This is followed by a brief discussion of security, sustainability and vulnerability issues involving small island nations in the Pacific. A brief note is added on the case of Nauru. In the penultimate section, attention is given to the appearance of new patrons of Pacific island states, such as China and Indonesia. Changes in the foreign policies of traditional patron states are among the factors providing opportunities for new economic patrons to emerge. Also the extent to which self-government is associated with economic benefit is discussed.

This topic is important because it demonstrates the close links between economic realities and political power relationships and highlights changes that are starting to occur in these relationships in the Pacific. It is found that although the various models which have been proposed for typifying the external economic dependence of microstates do not capture the situation of all, they nevertheless, provide useful starting points for analyzing their external economic relations and changes in these. Nevertheless, they should be regarded as “ideal” types.

2. The MIRAB Model, Evidence Supporting It and Its Consequences

MIRAB is an acronym for Migration (MI) Remittances (R), Foreign Aid (A) and the Public Bureaucracy (B); the essential components of the MIRAB model. It has been claimed that many small economies in the Pacific islands rely on these four elements to sustain the economic welfare of their population (see, for example, Bertram and Watters, 1985; 1986; Bertram, 1986; 2006). There is convincing evidence that this is so for some, for instance, the Cook Islands, Samoa and Tonga. It has also been applied to French overseas departments and territories in the Pacific by Poirine (1994; 1998).

It is helpful to decompose the MIRAB model into two distinct processes: (1) the aid process and (2) the emigration and remittance process. These operate as follows:

• Process I depends on the provision of foreign aid which in MIRAB economies is mainly used to fund the government bureaucracy. This aid provides income for public servants and a portion of this is remitted to their relatives, especially those who lack access to cash income. Expenditure by public servants (by those receiving their remittances) adds to additional employment and to cash incomes in MIRAB economies, for example, in retailing, via a multiplier effect. Nevertheless, typically, the import leakage from this expenditure is high. In cases where foreign aid is tied, this leakage is especially high.

• Process II involves the sending of remittances by emigrants from MIRAB economies to relatives (and to others) remaining at home. In turn, the spending of those remittances has a local multiplier effect on incomes and employment but this is damped by a high import leakage.

Figure 1 highlights the first of these processes and Figure 2 represents the second of these processes.

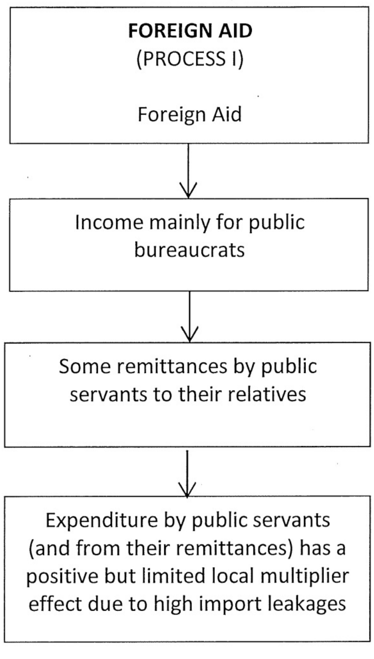

Figure 1 The primary mechanics by which the flow of foreign aid sustains the functioning of MIRAB economies

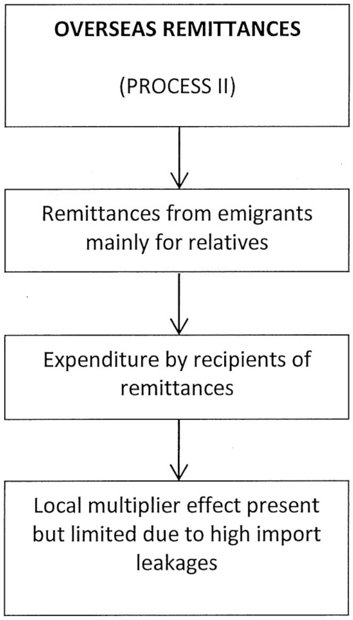

Figure 2 The primary mechanisms by which the flow of overseas remittances sustain the functioning of MIRAB economies

There is strong evidence that globally the total amount of international remittances to developing countries significantly exceeds the total value of their Official Development Assistance (Ratha and Silwal, 2012), and this is probably so for most MIRAB economies in the Pacific. With foreign aid being reduced by countries such as Australia and the USA, many MIRAB economies are likely to become relatively more dependent on Process II, the flow of overseas remittances from their emigrants, in order to maintain the economic welfare of their inhabitants. In addition, they are likely to seek foreign aid from other emerging donors such as China and even Indonesia, especially if their emigration possibilities are restricted.

Tonga's economy is heavily dependent on remittances from its overseas migrants. The nature and role of these remittances has been studied in depth by Richard P.C. Brown of The University of Queensland. Jimenez-Soto and Brown (2012, p. 426) report that "as many as 60 per cent of all households in Tonga have at least one overseas migrant, and 90 per cent of households receive remittances."

Brown, Connell and Jimenez-Soto (2013) find from studies of remittances by Tongans (and more recently by Fijians) that these are used mostly for consumption rather than for investment. They argue, however, that this should not be deprecated because these remittances play an important role in poverty alleviation and in providing social protection. Jimenez-Soto and Brown (2012) conclude from their detailed study of the role of migrants' remittances in Tonga that these remittances reduced the incidence of poverty by 31 per cent. Furthermore, Brown, Leeves and Prayaga (2013) found that considerable social pressure is exerted on migrants (often through their church affiliations) to donate extra funds when natural disasters strike their Pacific homelands.

A significant side-effect of both the MIRAB processes illustrated by Figures 1 and 2 is that they encourage migration to central urban areas from the peripheries of Pacific microstates. A couple of processes induce this internal migration process. First, the public bureaucracy is mostly located in central urban areas and this is where the greatest scope exists for locals to earn income in the form of cash. Secondly, those receiving remittances have reduced economic incentives to remain in remote locations and the "bright-lights" of urban areas become more attractive to them. There is also greater access to services (such as medical services and education) in urban areas and a greater variety of commodities are available in metropolitan areas and this also attracts individuals from outlying locations to central places. Sofer (2009) provides an example of this center-periphery issue for Fiji but it is even more marked in countries, such as Kiribati. This internal centralization process reduces the extent of economic self-reliance of Pacific island nations.

This discussion raises some important questions. Why do some Pacific microstates rely heavily on continuing foreign aid and international remittances for their economic welfare? Why are remittances (and aid) used mainly for consumption ("unproductive" purposes) rather than for investment ("productive" purposes) in many Pacific microstates? One possibility is that the returns on investments in some of these economies are low or negative and the scope for investments giving positive returns at home are limited (Tisdell, 2007). This is probably one reason why the governments of Tuvalu and Kiribati invest most of their capital funds abroad (namely the Tuvalu Trust Fund and the Reserve Equalisation Reserve Fund respectively) (Tisdell, 2000a; 2000b). Bertram (2006, p. 2) observed that there were limited opportunities for commercial economic investment in the MIRAB economies which he and Watters studied (Bertram and Watters, 1985). However, Pacific microstates are diverse (Tisdell, 1996; 2002; 2007; 2008a) and the extent to which commercial investment in them can yield positive returns varies. For example, the scope for productive investments is likely to be less in island nations consisting of atolls (for example, Kiribati and Tuvalu) than in those with islands that are mainly of volcanic origin (Fiji) or which are primarily of a continental type (New Caledonia).

If there is little scope for positive returns from investment in commercial production in Pacific microstates, then an alternative possible way to sustain their economies is by obtaining foreign aid and receiving international remittances. It also follows that there is little scope for aid to act as a catalyst for developing self-sustaining commercial production in these microstates. Furthermore, the investment of remittances locally for productive purposes will be infrequent if negative returns are likely in most cases. An additional consideration is that a higher return may be obtained by investing in offspring (to increase their human capital) in order to facilitate their emigration and subsequently, their remittances. Poirine (1997) has studied this aspect in detail as far as investment in the education of children in MIRAB economies is concerned and stresses its importance.

It also follows too that many microstates in the Pacific are unable to develop by applying the liberal economic principles of the Washington Consensus. The smallest states (Nauru, Kiribati and Tuvalu for example) are severely restricted in their ability to profitably export goods, although some microstates are able to benefit from trade in services, such as tourism (Fiji) or by acting as a tax haven for banking and finance (Vanuatu).

At the same time as major traditional donors to Pacific Microstates, such as Australia and the United States, have reduced their foreign aid to these nations, they have encouraged them to make greater use of private enterprise and free markets to increase their GDP and reduce their reliance on the government sector. On the whole, these policies have not met with success primarily because most of these countries have very limited opportunities to engage in profitable economic opportunities. This point of view is supported by the recent analysis of Hezel (2012) who points out (p. 27) that the "conventional pathways for economic development in the Pacific have offered limited success" and "most Pacific Island nations will require continuing outside financial assistance to make them viable as modern nation-states." Liberal market-type reforms are seen by traditional Pacific Rim patrons as an alternative to dependence on foreign aid. However, as Hezel (2012, p. 28) concludes: "As well-conceived as these reforms may be, they will all but certainly be unable to transform the islands, with their limited economic potential, into self-sustaining nations."

3. How Widely Applicable Is the MIRAB Model to Microstates?

The question has arisen of the extent to which the economies of Pacific island microstates satisfy the MIRAB model. First, it can be said that the model glosses over significant differences in factors sustaining the economies of microstates that have been classified as MIRAB economies. For example, Bertram (2006, p. 7, Figure 1) classifies Samoa and Tonga, Kiribati and Tuvalu as MIRAB economies but in several ways, they are as different as "chalk and cheese." The economies of Samoa and Tonga differ substantially in their size and diversity and their physical geography compared to the much smaller states of Kiribati and Tuvalu. This incidentally raises the question of what criteria should be used to determine what is an island microstate or a micro-economy? How small must it be? “Small” is a relative term and many dimensions can be used to determine its application. Consequently, judgment is involved in categorizing an economy or a state as small. For example, Fiji has a large economy compared to Tuvalu, but Fiji’s economy is small compared to Australia’s.

Secondly, while remittances make an important contribution to the economic functioning of many Pacific microstates, those received by Samoa and Tonga are largely a function of permanent overseas migration of family members. Both Tuvalu and Kirabati are much more dependent on remittances from family members able to obtain only short-term employment abroad, for example, the employment of merchant marines from these countries by German shipping lines and those on short-term employment contracts in Australia and New Zealand. Consequently, the sources of remittances of Kiribati and Tuvalu are much more vulnerable to changing economic conditions abroad than are those of Samoa and Tonga. For instance, there is intense competition from other nations, such as Pakistan, to supply crew for merchant ships. Furthermore, both Kiribati and Tuvalu are comparatively more dependent on rents from fishing rights within their Exclusive Economic Zones than are Samoa and Tonga. These rents are obtained from distant water fishing nations. As pointed out by Boland and Dollery (2006), the microstate of Tuvalu, which at first sight might be thought to conform with the MIRAB model, has its own peculiarities which result in it not being an exact fit at all.

Thirdly, it has become quite clear that many small island economies cannot be classified as MIRAB economies. For instance, McElroy (2006) highlighted the fact that the economies of some island microstates depend heavily on inbound tourism. The acronym SITEs (Small Island Tourist Economies) was developed to describe these economies. A third category of island microstates has been developed by Baldacchino (2006) for which he coined the acronym, PROFIT. This somewhat abstruse acronym consists of the following components: P (people considerations); R (resource management); O (overseas engagement); IF (finance, insurance and taxation); and T (transportation). Baldacchino highlights the ability of small nations to make strategic political decisions in the global context which enhance their economic welfare, for example, act as tax havens, provide flags of convenience for shipping, obtain rents from their natural resources and benefit from the presence of military installations. In some instances, these attributes are combined with tourism, foreign aid and remittances.

A fourth classification of the economies of some small island states also exists and was suggested by Guthunz and von Krosigh (1996) prior to the SITES and PROFIT models. It is the TOURAB aid and bureaucracy model.

It typifies those economies that depend heavily on tourism and the distribution of aid via the public bureaucracy. It has received little coverage in the literature.

The TOURAB, SITEs and PROFIT models underline the diverse nature of small island economies. Bertram (2006) accepts the existence of this diversity and uses it to provide a global taxonomy of island microstates. He classifies economies according to the extent to which they satisfy MIRAB, SITE or PROFIT characteristics. Oberst and McElroy (2007, p. 175) also provide a classification of small island nations according to whether they satisfy the MIRAB model or the combined PROFIT-SITE models. Note that not all the economies classified by Bertram (2006) and Oberst and McElroy (2007) are those of sovereign states: some are political dependencies and overseas territories of sovereign states. However, in neither of these publications are detailed reasons given for including particular island economies in one category rather than another. No quantification is provided. For instance, while Bertram (2006) classifies the Cook Islands as being predominantly a MIRAB economy, Oberst and McElroy (2007) place it in the PROFIT-SITE category. Both Bertram (2006) and Oberst and McElroy (2007) identify Tuvalu and Kiribati as having a MIRAB economy, but this fails to take account of their significant rents obtained from distant water fishing nations for access to fish (mainly tuna) in their very large Exclusive Economic Zones. Furthermore, as mentioned above, there is failure to highlight adequately the extent to which these nations depend on overseas remittances based on relatively short-term employment contracts.

Each of these models is intended to identify theoretical ("ideal") types but the PROFIT model is rather elastic or "hazy." Oberst and McElroy (2007, p. 165) claim that "the three aspects that distinguish PROFIT from MIRAB models are: the dynamism of the private sector, the active role of domestic policy, and the strategic orientation towards diversification. PROFIT examples would include tax and insurance havens, offshore banking centers and duty-free manufacturing exporters." The way in which the various dimensions of the PROFIT model can be measured are unclear. In fact, many of its dimensions do not seem to be quantifiable. On the other hand, the components of the MIRAB models can be measured, even though official statistics on remittances are inadequate because remittances are often made informally or directly by islanders and are, therefore, unrecorded.

4. Security, Sustainability and Vulnerability: Issues Involving Pacific Island Microstates

It is generally accepted that island microstates are economically more vulnerable than larger nations. Reasons for the economic vulnerability of island microstates have been outlined by Briguglio (1995). Factors which contribute to their economic vulnerability include:

• Their lack of economic diversification in exported commodities and their lack of scope for such diversification given their limited resources;

• Many are prone to natural disasters (such as cyclones and tsunamis) and, unlike large nations, they have limited resources to respond to such disasters which often impact on a large proportion of their population; and

• Land-based subsistence crops (which in some Pacific Islands provide a buffer against commercial economic instability) may be destroyed or severely damaged by natural disasters.

The economic vulnerability hypothesis has, however, not been accepted without dissent. According to Bertram (2006, p. 2): "In a globalizing world, inhabitants of small island economies have open to them a myriad of evolutionary responses to external forces that potentially enable them to seize niches of opportunity, and thereby insulate themselves from global economic shocks." This is a similar theme to that expressed by Baldacchino (2006). However, I believe it to be too sweeping a view. For example, while Brown, Connell et al. (2013) accept that island microstates in the Pacific are economically vulnerable, they also point out that some, such as Samoa and Tonga, are significantly insulated by their access to and dependence on overseas remittances. Despite this, many Pacific island economies do not have access to significant remittances, for example, that of the Solomon Islands. However, the Solomon Islands did receive a major cash injection as a result of RAMSI (the Regional Assistance Mission to the Solomon Islands) which resulted in the stationing of a sizeable security contingent there led by Australia (Anon, 2014). The last of this contingent left in August, 2013 and so this source of cash inflow stopped. There are also worrying signs that the incidence of poverty is rising in Pacific microstates for example, in Tonga, despite its being able to access a high level of overseas remittances (Jimenez-Soto and Brown, 2012). Furthermore, aid donors are liable to cut their level of aid when they experience economic difficulties at home, demand for the exports of those island economies that have significant exports are liable to drop, and the inflow of overseas tourists to island economies is likely to be curtailed by difficult economic conditions abroad.

Sustainability

The question is often posed of whether the MIRAB model of economic dependence can be sustained. In particular, for how long will those who have migrated from MIRAB economies and their progeny continue to send remittances to their kin in island economies? Some reduction in the willingness to send remittances can be expected with the passage of time. In order to ensure the long-term sustainability of the remittance system, continuous emigration is required. This however, is only possible if countries receiving Pacific Islanders as migrants continue to be willing to receive them. This is by no means assured (see, for example, Friberg et al., 2006).

As far as I am aware, there are no available comprehensive statistics of population and labor movements between Pacific islands and from and to Pacific island microstates and territories. It would be useful to have such information.

In a few cases, the sustainability of the economies of some microstates have depended on the mining of non-renewable resources, such as phosphate in the case of Nauru; an unsustainable economic activity. Several states also rely on income from renewable but depletable resources, such as tuna. There is always a risk of these resources being exploited in a sub-optimal way, and even being exhausted, problems not unknown in the Pacific (McDaniel and Gowdy, 2000).

A serious problem for Pacific island microstates consisting of low-lying islands (such as coral atolls) is the likelihood of sea level rise as a result of global warming (Tisdell, 2008b). Eventually these nations will become uninhabitable, and their inhabitants will become environmental refugees. For example, Kiribati and Tuvalu are at particular risk of this. In many cases, defensive actions (mitigation) of sea level rise can be expected to be ineffective and uneconomic. No doubt such small microstates will look to other nations, such as Australia, to accept their environmental refugees.

Political vulnerability

Despite the hypothesis of Baldocchino (2006) that island microstates have considerable ability to manipulate larger nations to their advantage, it seems more likely that larger higher income countries have the upper hand in this regard. For example, both Nauru and Papua New Guinea were probably more willing to accept boat people (refugees) for offshore processing from Australia because of their considerable dependence on Australian foreign aid. Australia also wants to have friendly relations with Indonesia and both sides of Australian politics recognize Indonesian sovereignty of West Papua (Chauvel, 2012). The Australian Government does not support the Free West Papua Movement (Chauvel, 2012), and in turn may expect Papua New Guinea to do likewise. In that regard, Australia has leverage via the considerable amount of aid it provides to Papua New Guinea. There are also doubts about whether Timor Leste has received an equitable deal in relation to Australian access to its offshore oil and gas, especially since it has been alleged that Australia spied on East Timor at the time an agreement was being negotiated with East Timor for Australian access to these resources (Lamb, 2014). This matter has been referred by the Government of Timor Leste to the International Court for Justice in The Hague.

An interesting question is why does Australia not make it easier for individuals from Pacific microstates to migrate to Australia permanently? The populations of some of these states (for example, Nauru and Tuvalu) are so small that the migration of their residents to Australia would have a miniscule impact on Australia's total population. It may also be less costly than providing aid (Tisdell, 1990, Ch. 10). Is it because pressures might emerge from larger Pacific Island states for a similar deal? Or is it a matter of strategic military concern? For example, if some microstates were to become depopulated, would they be taken over by potentially hostile foreign nations?

There are also other unresolved questions: What would happen to the sovereignty of a nation state if all of its population migrated to another state? If all the land mass of a sovereign state (for example, Tuvalu) should be submerged by sea level rise, would it lose all of its existing territorial rights? If one of more of the islands of a sovereign state (for instance, Kiribati) should be submerged by sea level rise, would its exclusive economic (maritime) zone be correspondingly reduced?

Some Pacific islands provide important strategic military bases, such as Guam for the United States, and may become more important as tensions escalate on territorial claims by Northeast Asian countries to areas in the Pacific Ocean. However, Australia's military bases are on its mainland with its forward bases being in its far north. Nevertheless, one understands the concerns of the United States and Australia about securing defensive outposts in the Pacific. On the other hand one wonders why France maintains a significant military presence in French Polynesia when it no longer has possessions in Asia, such as in Indo-China. Is it merely to provide a politically acceptable form of aid to French Polynesia? Or is it to bolster the appearance of France as a global political power?

It might be thought that because French Polynesia is a French overseas territory (and therefore, not a sovereign state) it ought not be classified as a MIRAB, TOURAB or similar economy. However, the boundaries of an economy do not have to coincide with that of a sovereign state. Depending on the purpose, and subject to some judgment, the economies of regions and other geographical areas can be analyzed (including the economy of French Polynesia) even when they do not constitute sovereign states. In fact, Poirine (1994) has applied the MIRAB model to French overseas departments and territories in the Pacific.

5. Brief Notes on the Case of Nauru

To some extent, every Pacific island microstate is unique. This is highlighted by the case of Nauru. It is not an archipelago (unlike most Pacific island microstates) but consists of a small single island formed by a raised coral bed.

In 1888, Nauru became a German Protectorate and in 1906 (as a result of a British initiative) a German and British consortium was formed to mine its phosphate deposits which was in particular demand for fertilizer in Australia.

Although Germany lost its possessions in the Pacific as a result of World War I (Nauru was placed in 1919 under the trusteeship of the UK, Australia and New Zealand), phosphate mining on Nauru continued. It was occupied by the Japanese in World War II and reoccupied by Australian troops in 1945. Nauru was again placed under the trusteeship of Australia, New Zealand and the UK in 1947 and administered by Australia. It became a totally independent nation on January 31, 1968. McDaniel and Gowdy (2000) state that between 1909 and 1966, Nauruans received little or no economic benefit from phosphate mining on their island. Furthermore, they point out that "mining under occupation and then trusteeship had left more than a third of the island in a state of complete destruction" (McDaniel and Gowdy, 2000, p. 45). A later source (Anon, 2013, p. 6) claims: "the phosphate reserves on Nauru are almost entirely depleted. Phosphate mining in the central plateau has left a barren terrain of jagged limestone pinnacles up to 15 meters (40 ft) high. Mining has devastated about 80 per cent of Nauru's land area [and a considerable amount of marine life surrounding the island has been killed by silt and phosphate runoff]."

As a result of pressure from Nauruans and UN bodies, more generous phosphate royalties were paid to Nauru in the two years preceding its independence (McDaniel and Gowdy, 2000, p. 45), and a portion of these was placed in the Nauru Phosphate Royalties Trust. By the time of its independence, Nauru's phosphate deposits were virtually exhausted. Returns from investments by the Nauru Phosphate Royalties Trust were intended to provide a continuing source of income for Nauru but due to unwise investments and use of these funds by the government to cover budget deficits, they were almost exhausted by the beginning of this century (Anon, 2013), thereby leaving Nauru in a dire economic state because it had few alternative ways to earn income. It therefore, became highly dependent on foreign aid provided mainly by Australia, New Zealand and Taiwan. In addition, Australia agreed in 1993 as a result of an out of court settlement to pay Nauru $107 million (Australian) to rehabilitate the mined areas of the island (McDaniel and Gowdy, 2000, p. 46). However, I could not find evidence of any significant rehabilitation having been done.

Given its difficult economic situation, Nauru has had to consider every possibility for earning income from external sources. In the 1990s, it became a tax haven and a base for money laundering but under pressure from the inter-governmental Financial Action Task Force on Money Laundering, it changed its policy in 2003. It has also welcomed the opportunity to house those seeking asylum in Australia and arriving "irregularly" by boat in return for extra Australian aid. This is a part of Australia's Pacific Solution to stem the arrival of boat people arriving via Indonesia. The Nauruan detention center operated from 2001–2007 then closed but was reopened again in August 2012. Presumably, this center will not provide Nauru with a secure long-term source of income.

Nauru has some other sources of income such as royalties from fishing rights, but these are quite limited. Furthermore, by world standards, its net migration rate is low. The Central Intelligence Agency (CIA) (2013) reports that the estimated net migration rate of Nauru in 2013 was 14.63 migrants per 1,000 of its population which suggests that (unlike Samoa, Tonga and several other microstates in the Pacific) it cannot rely on international remittances for its economic sustainability. The CIA (2013) also reports that Nauru has no defense forces and that Australia is responsible for its defense.

While there is some evidence that Nauru has used its jurisdictional power for manipulative purposes (for example, in changing its recognition of the People's Republic of China and Taiwan), its global manipulative power appears to be limited and in acting as a haven for money laundering, it did not escape international attention (Drezner, 2001). Baldacchino (2006) claims that microstates are so small that their support of economic activities regarded internationally as dubious, undesirable or illegal are not noticed and do not result in any international retaliatory action. Thus, Nauru does not fully comply with Baldacchino's PROFIT model although it is true that several sovereign microstates in the Pacific trade their votes in international fora in return for extra aid and other economic benefits from larger nations and do support international economic activities of "borderline" nature (Drezner, 2001). However, many of these activities are not sustainable and depend on sporadic opportunities (Drezner, 2001). In addition, Nauru is not a magnet for tourism and therefore, does not fit the SITE of the TOURAB model either. Nor does it appear to comply with the MIRAB model. Bertram (2006, p. 7) does not include it in his taxonomy of microstates based on this model but Oberst and McElroy (2007, p. 175) classify it as being a MIRAB economy. Despite this, it is an economy which depends much more on foreign aid than on overseas remittances. This is not clear if it is classified as a MIRAB economy. In fact, like most Pacific island microstates, Nauru has special characteristics which can only be appreciated by considering its historical background and its special circumstances. It is only by taking into account these aspects that one can understand the challenging economic situation it now faces.

6. Additional Issues – The Emergence of New Patron Nations in the Pacific and the Relationship between the Political Status of Island Communities and their Economic Fortunes

External influences on Pacific small island economies have changed considerably in recent decades. China has become a major aid donor and Indonesia has started to give aid to some Melanesian countries. Secondly, there appear to be no strong demands for self government by those countries that do not have it. To some extent these developments reflect economic realities. Let us consider each of these aspects briefly in turn.

New foreign aid patrons in the Pacific Islands

China has become a major global donor of foreign aid. The volume of its foreign aid increased noticeably from the late 1990s onwards. JICA estimated that China was in 2013 the sixth largest donor of global aid with the amount of its foreign aid only being exceeded by that of the UK, US, Germany, France and Japan (Lowy Institute for International Policy, 2015). Moreover, Brant (2015) reports that China is on track to overtake Japan as the third largest donor in the Pacific and within a few years could overtake the United States as the second largest donor. However, she does not take account of financial assistance to French territories and dependencies in the Pacific in her rankings, presumably because this assistance is not counted as foreign aid.

The increased involvement of China in international affairs and its use of foreign aid as a policy instrument was to be expected given the success of its economic reforms and its opening up to the outside world. As a consequence of its economic reforms and open-door policies (Tisdell, 2009), China is no longer as economically self-reliant as it used to be but it remains staunchly independent and self-reliant politically (Tisdell, 2013). Apart from altruism, there are several reasons why China, like most other nations giving foreign aid, may see it as advantageous to provide foreign aid. These reasons probably include:

- The strengthening of China's access to natural resources which it can import on favorable terms;
- Facilitating its foreign direct investment in countries receiving aid;
- Helping to increase market-access for its exports; and
- Increasing China's global political influence and standing.

According to Brant (2015), China is now the largest bilateral donor by far in Fiji and the second largest bilateral donor in the Cook Islands, Papua New Guinea, Samoa and Tonga. Consequently, she (ibid.) raises the following issue:

> The size of China's aid program at both regional and individual country levels begs the question of whether traditional patrons will continue to set the regional development agenda at least to the

> extent they are accustomed. Increasing amounts of Chinese aid can potentially give more bargaining power to Pacific Island governments when negotiating for development assistance – either by playing partners off one another or by turning to China to find projects that others may not.

This fits in well with Baldacchino's theory. He suggests that small island nations "call the tune" as far as foreign aid is concerned. On the other hand, since much of China's recent aid is in the form of concessional and other loans (not grants), it is also possible that aid recipients in this region may have little scope to maneuver politically if they become heavily indebted to China. Moreover, traditional donors may be put in the invidious position of being asked for increased aid by indebted Pacific island nations unable to repay their loans to China. Brant (2015) points out that it is highly likely that several Pacific island recipients of loans from China will default on repayments. Western observers have raised several criticisms of China's aid policies. These include the prevalence of tied aid (for example, Svizzero and Tisdell, 2016) and insufficient attention being given by China to the ability of loan recipients to repay loans (Brant, 2015).

It should be noted that China's increase in aid and assistance to Pacific island nations has been facilitated by the reduction in these forms of support by traditional donors, increased migration restrictions, and the belief that structural adjustment and market liberalization in these economies can be used to offset the negative economic effect on them of the aforementioned policies.

A second interesting development is that in June, 2015, Indonesia became an associate member of the Melanesian Spearhead Group and since 2011 has been increasing its aid to the Member States of the Melanesian Spearhead Group (Embassy of the Republic of Indonesia in Doha, 2015). Presumably, one of the main purposes of this is to counter any support of members of the Melanesian Spearhead Group for the United Liberation Movement for West Papua. West Papua, like Papua New Guinea, is rich in natural resources.

Although Pacific island microstates are considered on the whole to be poor in terms of natural resources, their position is complicated. Some only have a single resource of considerable economic value. In the case of Kiribati and Tuvalu, this is the presence of tuna in their exclusive economic zones. Some are more fortunate. However, none have the amount of capital, expertise and market access to take advantage of those natural resources which are relatively abundant, but many larger nations do. This partly explains the interest of some larger nations in giving aid to these countries to facilitate their access to these resources.

The political status of island communities and their economic fortunes

Those small island communities which have retained a close association with their former colonial powers and which are not politically independent (or only independent to a limited extent) appear to have fared better economically than those which have become politically independent. This relationship appears to have been initially investigated by Bertram (2004). This hypothesis has subsequently been supported by the research of Dunn (2011) and by McElroy and Parry (2012). It seems that less politically independent territories benefit from greater levels of aid from their metropolitan patrons and have more opportunities for emigration and consequently, for remittances. They also enjoy other advantages as well which are identified by Dunn (2011). Bertram (2004, p. 343) states that "in the small-island setting, there has been no tradeoff between political dependence and material welfare, the two go hand in hand."

7. Concluding Comments

It is doubtful if any of the simple models for describing the economies of island microstates and dependencies (the MIRAB, TOURAB, SITE and PROFIT models) adequately explain the economic situations that Pacific island economies now face because they do not take enough account of historical and cultural factors as well as matters of location. These models do not seem to explain (for example) why the economies of Singapore, Hong Kong, Malta, Nauru, Tuvalu, Kiribati and the Federated States of Micronesia are so different. The historical association of the Pacific island microstates with Australia, France, New Zealand and the USA are of considerable importance for their economic functioning but the way in which these relationships have come about requires delving into the historical background of their development. This is underlined by the case of Nauru. Today, China has also taken a greater interest in many of these Pacific microstates as part of its growing global influence. This could become a concern for those nations (such as Australia, New Zealand and USA) that have had the greatest external influence on these microstates in recent decades.

The possibility that the populations of some of these microstates (for example, Nauru and the Solomon Islands) could sink into abject poverty is another concern, and the problem of how several of these microstates will cope with predicted sea-level rises is unresolved. Apart from this, serious health problems exist in several Pacific states close to Australia. For example, the incidence of malaria is high in the Solomon Islands and in Papua New Guinea and in the latter country, tuberculosis (including a strain resistant to antibiotics) is relatively common. These problems are occurring virtually on Australia's doorstep. However, it seems likely that Australia will do even less in the future to help address these issues because with the election of Tony Abbott as Prime Minister in the latter part of 2013, the Australian government has substantially reduced the amount of its foreign aid, but has limited reductions in aid to Pacific island nations. The United States is also reducing aid to the Federated States of Micronesia and the Marshall Islands (Friberg et al., 2006) but these states may be able to sustain their economies as a result of remittances. However, not all Pacific island states are able to do this, because of external obstacles to the migration of their citizens. Furthermore, the US may add obstacles to migration from Micronesia and the Marshall Islands as indicated by Friberg et al. (2006, pp. 130–131). This would undoubtedly result in great economic hardship for residents of these nations, especially if they experience major adverse consequences from climate change.

It is clear also that the policies of traditional patrons of Pacific island states encouraging these states to adopt market-led development have not been a success, as has been pointed out by Hezel (2012). They have not resulted in sufficient economic growth to compensate Pacific microstates for reduced foreign aid provided by their traditional patrons. In these circumstances, it is little wonder that many Pacific island microstates have been forced to search for new patrons, such as China. One would expect them to continue to do so despite the political dependence that this might entail for them.

NOTE

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